



Written Testimony of Denise L. Nappier
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SUBMITTED TO THE PUBLIC SAFETY AND SECURITY COMMITTEE
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Senators Larson and Guglielmo, Representative Verrengia, and members of the Public Safety and Security Committee, thank you for this opportunity to submit testimony on Senate Bill 280, *An Act Concerning the Connecticut Lottery Corporation*.

This bill would begin a process of studying in more detail a proposal offered last week by the Commission on Fiscal Stability and Economic Growth to use Connecticut Lottery revenues or other assets to improve the funding status of the Teachers' Retirement Fund (TRF). While considerable work must be done to flesh out this idea, and while accounting standards may well interfere with certain options, this concept is intriguing and promising. This option, for example, could provide a boost to the pension's funded status that would lead to lower actuarially-determined employer contributions (ADEC). The resulting cost savings could be used to offset higher costs associated with lowering the investment return assumption from the current 8 percent, a move I have consistently recommended.

While I am generally supportive of this legislation, I would like to propose some revisions. First, any analysis of a Lottery option for bolstering the assets of state retirement systems must include input from the Office of the Treasurer. Given the State's system of pension fund governance, which includes a constitutional officer as principal fiduciary, the nature of the Treasurer's fiduciary duties and the role of the independent Investment Advisory Council, it is critical that the Office have representation at the table when analyzing and structuring any asset transfer or other approach to using Lottery assets for the State's pension funds. This would be particularly important if the transfer were in the form of an illiquid asset whose value would need to be protected by strong governance measures.

Second, the studies mandated by the bill – aimed more broadly at all state retirement systems – should include a review of various forms of asset transfer options, including securitizing a portion of the Lottery's revenue stream. Since the asset transfer concept was first raised, there has been discussion at the Treasury about both its impact on the cash flows of the pension fund and the reaction of the credit rating agencies. We have noted that the rating agencies would view an immediate infusion of cash more favorably than the transfer of an illiquid asset. A recent Bloomberg article reported that Moody's does not consider future revenue a pension asset, saying "future revenue streams aren't assets today." Therefore, any study should include analysis of various

cash infusion options such as securitization to guard against negative impacts on cash flows and against credit rating downgrades.

Third, how the Lottery assets would best be managed under the various alternatives should be part of the analytical efforts. Different options would require different levels of state oversight and management.

Therefore, I recommend that the bill be revised to require the Secretary of OPM to consult with the Treasurer in procuring and overseeing the services of outside experts, who would be retained in order to value the Lottery assets under different scenarios and evaluate the impact of the range of alternatives, including the management of the assets.

Before I close, I would be remiss if I did not reiterate that any study of options to improve the funding status of the Teachers' Retirement Fund must reflect the need to preserve the bond covenant adopted with the General Assembly's approval of Pension Obligation Bonds in 2008 until such time as the bonds are paid off.

I also encourage the General Assembly to adopt strong measures that ensure future funding discipline, including a requirement for supermajority votes, with public notice, for any decision to pay less than what is deemed actuarially required to meet the State's pension benefit obligation year in and year out.

As I said last week to you, there should be a comprehensive analysis of the options on the table, with information shared with all interested parties, followed by careful deliberation among all stakeholders. Let's work together to devise a solution that recognizes the State's fiscal constraints, while honoring the promises we've made to bondholders and taxpayers and keeping foremost in our minds the retirement security we owe our teachers and others.

We will provide the Committee staff with suggested revisions to the bill consistent with this testimony. Thank you.